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cc: ad

Mr. N. Henry Josephs
90 Broad Street
New York 4, New York

Dear Mr. Josephs:

Mr. Dulles has asked me to thank you for the copy of your article on "Foreign Aid and Foreign Policy" which we have read with interest. I quite agree with you that foreign aid is an integral part of our foreign policy and has achieved substantial results since World War II. I also agree that our financial commitments under NATO are rather misleadingly labeled as "foreign aid", and are really costs of our own national defense. Thank you again for your stimulating pamphlet.

Cordially,

[Redacted Signature]

Robert Amory, Jr.

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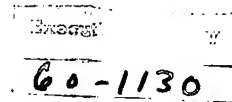
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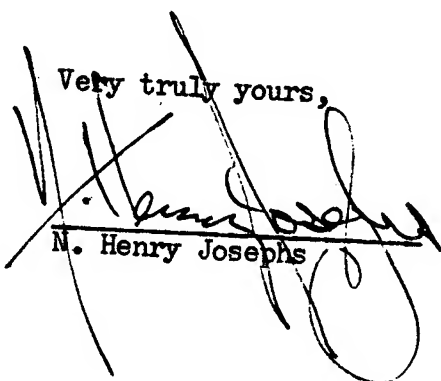


February 10, 1960

Dear Sir:

I am enclosing a copy of my article
entitled " Foreign Aid and Foreign Policy "
which is being distributed throughout the
United States. I will appreciate it if
you will please read it and favor me with
your comments.

Very truly yours,



N. Henry Josephs

NHJ:cb
Enc.

FOREIGN AID
and
FOREIGN POLICY

AN ANALYSIS

By

N. HENRY JOSEPHS, Lt. Col., U.S.A.F.-R.
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New York 4, New York

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FOREWORD

Copies of this Article are being mailed to every member of Congress, to persons holding key positions in the Executive Branch of the Government and to the Governors of every state. Some five hundred copies are being mailed to individuals personally known to the author.

I wish to add that my own efforts in the preparation, printing and distribution of this Article are intended simply as a modest contribution on a subject which I believe to be of utmost importance to the security of our Nation, with the hope that it will help stimulate public debate.

The Article is non-partisan. I am not affiliated with any organization. I am not sponsored and all expenses are borne by myself. Additional copies will be mailed, upon request, without charge.

N. HENRY JOSEPHS

New York, February, 1960.

FOREIGN AID
and
FOREIGN POLICY

That Democracy Might Prevail

A LITTLE less than fifteen years ago, immediately following World War II, key nations of the world were in a state of economic collapse, a direct result of the devastations of a cruel war. In addition to millions of people killed, there were millions maimed, uprooted and displaced. A sense of stunned immobility enveloped the people of most of these nations. Law and order were threatened everywhere. It was obvious that considerable and persistent "pull," encouragement, and financial help were hurriedly needed to help these nations save their freedom and preserve their democratic way of life, the life of free and unoppressed peoples.

It was at this time that we, the people of the United States of America, ourselves shaken by the trials of war, stepped in and mobilized our national wealth, our energies and our goodwill to give a helping hand to the many peoples and nations in their new fight for survival and recovery. In addition to help through the American Red Cross, we extended help through UNRRA (United Nations Relief and Rehabilitation Administration); then, in even greater amounts, through the MARSHALL PLAN; concurrently, we made substantial contributions

to the many missions and many projects carried on by the UNITED NATIONS and by UNKRA (United Nations Korean Reconstruction Agency). Military and economic aid programs, running into billions of dollars, were regularly approved by the United States Congress and the required funds appropriated and disbursed.

In addition, our aid program included: private fund raising and private distribution of moneys, foods, clothing, medical supplies, CARE parcels and *people to people* direct help throughout the world.

In these past fifteen years, we poured billions upon billions of dollars into the Treasury of the United States, by way of taxes, and into the tills of private charity organizations by way of voluntary contributions. We did it, employer and employee alike, to serve the many humane purposes and to meet the real and pressing needs of a war scarred world. To be exact, since July 1, 1945, the United States, taking into account repayments and without including help by private agencies, has extended aid, through grants, credits, and other forms of assistance, for a total of 75.8 billion dollars. This aid has been disbursed by 17 United States government agencies and has gone to more than 160 countries, dependencies and territories and international organizations. It was our honest desire and sincere hope that this would eventually lead to making this world a better place to live in. We helped not only our war allies, but we also helped the "new comers", the newly freed nations. We even helped our former enemies, Japan, Germany and Italy, and contributed substantially to the rebuilding of their national economy.

We did all these things unselfishly. The skeptic, if he wishes to take the trouble to do so, is invited to examine the events and purposes so briefly just described by simply acquainting or re-acquainting himself with the history of these eventful past fifteen years. Of course, we also did these things for what might be called "selfish" reasons. That is, if the desire to preserve ourselves and insure the chance of living as free people in a world at peace *can* be called "selfish". We believed that no price was too high to achieve this goal. This belief was reaffirmed by President Eisenhower in his Christmas Message, delivered on

December 23, 1959, shortly after his historic goodwill journey which took him to eleven nations and three continents.

Thanks in large measure to the generous United States assistance, countries like England, France, Belgium and Holland, are witnessing flourishing economies, and so are countries like Germany, Japan and Italy. Their currencies have hardened, and most are freely convertible. With our assistance and with the assistance and industry of the people we helped, the democratic way of life prevailed and, in fifteen short years, we have witnessed *an emergence from economic chaos and destruction to repair and economic stability, unparalleled in any post-war history.*

Foreign Aid Confusion

Unless we view them, in their proper perspective and against the background of things accomplished these past fifteen years, certain current events affecting our relations with free and friendly nations can be thrown out of focus and grossly misunderstood.

One such event is the "rumpus" caused by the recently declared "new" policy in connection with the lending of moneys to underdeveloped countries from funds voluntarily allotted by our Congress to the Development Loan Fund, an organization just about two years young. The purpose of its creation was briefly and succinctly stated in the *Report of Committee of Conference on Mutual Security Act of 1957*, as follows:

"The basic purpose of the Development Loan Fund, as stated in Section 201 in the bill is to assist, on basis of self-help and mutual co-operation, the efforts of free peoples to develop their economic resources and to increase their productive capabilities."

Initially the D. L. F. was allotted \$300 million and another \$1.1 billion has been appropriated and allotted to it since. The D. L. F. has disbursed \$90 millions since its inception and committed, but not yet disbursed, another \$800 million.

There were "no strings" attached to the moneys appropriated by Congress and allotted to the D. L. F. But, the D. L. F.'s managing

director, Mr. Vance Brand, when less than seven weeks in office, announced on October 19, 1959, that in the future, D. L. F.'s loans must be used for the purchase of goods in the United States *exclusively*. This was not just a directive by the head of a subsidiary Government agency, but in fact, a declaration of *foreign policy*. Earlier, in a speech at the Far East-America Council, at the Waldorf-Astoria Hotel in New York, on October 6, 1959, Mr. Brand stated:

"* * * Let me begin answering that question by saying Urbana, Ohio, was once an agricultural economy with good banking facilities sufficient for the community, without any need to go to Cincinnati or New York for money. * * * Industries were established and built up. Over the agricultural economy was superimposed a thriving industrial economy. The local banks were no longer able to meet the needs of the community, and people and industries began to borrow funds outside. I saw all this happen and helped it happen. I went to Cincinnati and New York with these people and helped to set up joint accounts with the larger city banks. * * * During my service with the Export-Import Bank I saw one new under-developed country after another becoming more active and capable. I saw new industries established and commercial activity broaden * * *. In the one case as in the other, it is largely through business relationships that the newly developing areas are being bound together with the more industrialized areas in a strong, well-knit free world community. Flourishing business ties constitute a people to people kind of relationship that may be more effective in the long run than any other kind * * *."

Mr. Brand, however, failed to state whether Cincinnati or New York *required* Urbana to apply the proceeds of the loans received toward purchases in Cincinnati and New York *exclusively*. That is, was Urbana forbidden to use the moneys loaned, in the markets of other states, or of foreign countries, even where in its own judgment, it thought that the moneys borrowed if spent *its way* would be the way that would do it most good? There is every reason to believe that the moneys borrowed were spent by Urbana *independent* of the dictates of the cities of Cincinnati and New York.

It may be that when Mr. Brand delivered his speech at the Waldorf-Astoria, he did not know that he would later have to announce a "Buy-American" policy. But, if there *was* a change in our thinking, why

should the D. L. F. have been the one to do the announcing? The D. L. F. is but a fractional and small part of our international aid program. As pointed out editorially, (October 24, 1959) by *The New York Times*:

"The D. L. F. decision ("Buy-American" decision) will offer little help indeed. It will have almost no effect on the payments situation for about two years, and after that, the effect will apparently be something less than \$300 million a year. This is peanuts in a set of transactions, incoming and outgoing, that are in the neighborhood of \$25 billion a year, and small even in relation to this year's prospective deficit of \$4 billion."

This new policy, it is said, was made necessary because our gold reserves were sharply dwindling and because in 1958 U. S. deficit balance of payments amounted to \$3.4 billions and in 1959 was expected to reach \$4 billions. Therefore, the argument was advanced that to remedy the situation, the Western industrial nations, particularly Germany, France, and Great Britain, and in Asia, Japan, be *not* further *favored* the markets of the under-developed countries and help them increase even further their export trade, with *us* furnishing the funds.

The deficit in our balance of payments presents a real and very serious problem. But, to center the debate around the D. L. F. and its loan recipients is indeed stirring up a "tempest in a tea cup." Instead, our concern over balance of trade should receive serious and continuous consideration in our dealings with the "well developed countries", whose sound economic position we helped establish.

The announcement of the "Buy-American" policy by the D. L. F. was unfortunate and, in fact, could have brought on the opposite result than the one desired, in that it cast doubt over the soundness of the dollar. At the same time, it did serve a definite purpose, more particularly, the purpose of letting our friends and allies know that this country now needs to, and will take steps to, protect its economy and its currency. In a dispatch by Mr. Edwin L. Dale from London, dated December 25, 1959, which appeared on the front page of *The New York Times* under the heading "Europe's Bankers Believe Dollar Will Hold

Strong", Mr. Dale, in that part of the article which refers to the D. L. F. incident, summarizes it as follows:

"The reaction here to the United States decision to 'tie' loans from the Development Loan Fund to purchases in the United States is mixed. The majority believe the decision was unfortunate. * * * The decision, and the payments deficit in general, have, however, given some European politicians a peg on which to hang lengthy speeches implying the 'weakness' of the United States. This is regarded as the real danger in the situation by a number of men, both European and American. A French banker and a United States diplomat used almost the same words: 'I know, of course, that this balance of payments problem can be handled without too much difficulty. People who talk about 'devaluation' of the dollar do not know what they are talking about. But the talk hurts particularly in the present situation *vis-a-vis* the Russians. And the Development Loan Fund action had a look of panic about it that didn't help any.'"

It is only fair to add that this brief review of the D. L. F. incident should not be taken as adverse criticism of its managing director, Mr. Vance Brand who, by all reports, is doing an excellent administrative job. It is being recorded here because it is now a historical fact that it was his announcement of the new D. L. F. policy that stirred up public debate, both here and abroad, on the subject of balance of payments deficit and its related problems.

The confusion was caused mainly because we gave, or appeared to give, greater importance than was justified to the "tie-in loans" and to the "Buy-American" policy, than we should have given. Under these circumstances, even so authoritative a publication on financial matters as the Wall Street Journal had to raise the question: "What is the United States trying to do? Is it trying to develop the under-developed countries or is it trying to help its own national economy?" (Foreign Aid Confusion, October 22, 1959). For this confusion, we alone are to be blamed. Leaving aside the question of the merits and wisdom of this "curved ball" diplomacy, the foreign trade problem remains real and serious and a clear understanding of it is most essential.

Deficit in Balance of Trade Payments

It is no secret that the prime mover of this "new look" in our foreign aid policy is the Secretary of the Treasury, Mr. Robert B. Anderson. The Treasury maintains, that during the years immediately following World War II, *it was in the interest of the United States* to permit, encourage and help by way of exporting its dollar capital through Government loans and aid programs and allow procurement by aid recipients to buy from nations *other* than the United States. We wanted the national economy of the principal nations of Europe restored, even to the extent of allowing restriction of imports on our *own* products. These import restrictions were tolerated because otherwise the "dollar capital" would have flown back, since we were then the only nation capable of means to meet industrial and consumer needs. We wanted the free people and the free nations of the world to get back on their feet, strengthen their national economy and harden and stabilize their currencies.

Since the developed countries *have gotten more than back on their feet*, we feel that it is time for them to help in an overall aid program.

Now, the situation is different. The United States instead of enjoying a surplus of balance of trade payments, is experiencing the reverse. It is felt that the time has come for the industrial and more developed countries to let down their import barriers, imposed some years ago when it was necessary to protect their respective economies. In this respect, Mr. Anderson believes, and justifiably so, that the considerable gold and dollar reserves accumulated by these countries should now be allowed to flow back into the international market. This applies to all countries, whether the "under-developed", using funds borrowed from us, or the "developed" countries, who have been benefiting through our aid.

For some months, there have been extensive public debate, both in this country and abroad, all centered around the D. L. F.'s declared policy in loans to under-developed countries. The articles and editorials, in magazines and newspapers, and the public statements by experts and

people in high office, have been so numerous that one has to quote but a few to present the problem which confronts us and, incidentally, confronts the free world. The problem is not new. And, certainly did not appear into the horizon with the suddenness which the controversy first seemed to suggest. It has been there for some years and steadily growing in seriousness. One wonders, in fact, why we did not let the American people know of its existence long before this and why we failed to ask for a show-down much earlier.

Mr. Henry C. Alexander, Chairman of the Morgan Guaranty Trust Company of New York, the nation's fifth largest bank, presents the problem by stating that, in his view, the United States has fallen into "a rut" of deficit in settling its trade accounts with the rest of the world and that trade deficits had persisted during the last ten years to such an extent that they had grown to a total of more than \$17 billion. He warns that the "red figure" the United States has been running in its balance of payments threatens the American dollar, economy and standard of living and feels that the United States "should become more aggressive in urging other nations to drop their discrimination against its American made goods." (The New York Times, October 18, 1959).

The view of others is, that in order to reverse the tide, we should re-examine our laws and policies which have given special encouragement to the flow of dollar capital abroad and take steps that would curtail and substantially reduce such export of capital. Others, even go so far as to suggest that if a way out is to be found "it is to be found in abandoning altogether the aid programs as now constituted." They argue that this would "not only stop the dollar drain, but would also give the nation the chance to fully reassess the whole range of aid programs."

Fortunately, except for D. L. F. incident, the present disposition of our top officials is not to search for radical solutions and except for the D. L. F.'s announcement of a "Buy-American" policy, no consideration or even any study is being made, at the present time, to impose barriers against imports. Such a policy, long abandoned

by us, would be contrary to our own present efforts to bring about the reduction of tariffs among the trading nations of the free world. As a matter of fact, the view held by many officials in Washington is that the world could live comfortably with a United States deficit ranging from about one billion to two billion dollars. This is not the view of our Secretary of the Treasury. The Secretary of the Treasury has repeatedly shown concern over the deficit in the United States balance of payments.

Mr. James Reston (The New York Times, October 28, 1959) puts it this way:

"Secretary Anderson has been talking about this for a long time. Now he is acting. He has insisted that the allies particularly Germany, France, Britain", as well as Japan "remove their quotas against the importation of American goods."

Mr. Anderson would go even further than the D. L. F.'s aid activities and move the newly declared policy of "Buy-American" into I. C. A., which would affect another billion dollars in foreign aid. This aid, by present policy, can be spent by the receiving nations anywhere in the world. Mr. Anderson would like to see it all spent in the United States. The International Cooperation Administration is strongly resisting this change in policy but, should Mr. Anderson insist, the President will most likely back him up.

Senator J. W. Fulbright, Chairman of the Senate Foreign Relations Committee, has shown considerable annoyance at this new "tack" in foreign relations. Particularly, when it is being initiated without consultation with the Senate Foreign Relations Committee or with the Secretary of State. He has let it be known that he is neither convinced nor prepared to accept this drastic change in policy and that he felt that the D. L. F.'s intention to tie loans to buying "in America only", could bring about "unfortunate effects, including the curtailing of world trade." And, he feels, that so serious a change in policy "should not be made except under dire circumstances." The problem, Senator Fulbright says, is *not* what is *done* with United States aid dollars, but what *trade and exchange restrictions are continued to be maintained* by the countries which have been gaining reserves at *our expense*.

International Trade

The controversy over the D. L. F.'s new policy came at the time when our Under Secretary of State for Economic Affairs, Mr. C. Douglas Dillon, was in Tokyo attending the GATT meeting. The problem, clearly pointed out by Senator Fulbright, "that it is more important for us to look into what trade and exchange restrictions are continued to be maintained by the countries which have been gaining reserves at our expense", became a major item on the agenda of the thirty-seven nation group at the GATT meeting in Tokyo.

Mr. Dillon forcefully presented to our friends and allies the advantages to be derived from a policy of multi-lateral trade agreements. Most appropriately, it was the United Kingdom, at the GATT meeting, that undertook to sponsor the proposal of the United States requesting that discriminatory curbs against the United States exports be lifted. Even as the GATT meeting was underway, Great Britain announced a long list of goods whose import Britain would no longer restrict. This action by Great Britain was received with cheers and a dispatch from Tokyo, released by the Associated Press, read:

"British Step Applauded.—Britain's sweeping liberalization of dollar imports was applauded by the United States and Canada during a world trade meeting today. W. T. M. Beal, Jr., United States Deputy Assistant Secretary of State for Economic Affairs and J. H. Warren of the Canadian Department of Trade and Commerce, told the nations of GATT, the General Agreement on Tariffs and Trade, that Britain's decision was particularly encouraging because it came at a time when world attention was on unrestricted trade."

The following editorial comment in the London Times (November 5, 1959) under the title *"Slow Dismantling"* deserves quoting:

"That the list of goods whose import Britain has further liberalized is so impressive is a token of the extent to which quota restrictions have been retained. * * * This represents therefore a further removal of discrimination against the dollar against whose persistence in Europe, Mr. ANDERSON, the United States Secretary to the Treasury, protested so vigorously at this year's meeting of governors of the International Bank and International Monetary Fund. The

original reason for this discrimination, based on currency and exchange difficulties, has ceased for some time to be valid. In this matter, Britain has lagged behind several other European countries. The change now made is a belated one, and it is a pity that it had to await Mr. ANDERSON's reasonable complaint."

France followed suit. A dispatch from Paris, dated about the same time as Britain's announcement, stated that "France opened the door wider today to importation of a wide range of products from the United States, Canada and Western Europe." The decree lifted quota restrictions on more than 200 products, notably textiles, clothing, tools, refrigerating equipment, agricultural machinery and photographic equipment.

On December 28, 1959, Japan announced that it would follow suit and that by April 1961 (a program somewhat slower than anticipated, but welcome nevertheless) it will lift import curbs and that between sixty per cent and seventy per cent of Japan's imports will, by that time, be free of trade restrictions. The United States is expected to be the chief beneficiary of this announced liberalization policy by Japan and some of the import items which will be freed from import restrictions will include, among others, soy beans, gypsum, lard, fat, copper, steel and iron scrap, pig iron scrap, rope fibre and cowhide. Some chemicals may be added to the list of freed items at some future date, but it has been indicated that raw cotton and wool will continue to be restricted and will not go on the non-restricted list until some time in April 1961.

We have yet to hear from West Germany, Italy and Austria, all of which have declared future favorable trade policies toward the United States.

Furthermore, at the suggestion made by Mr. Dillon in Tokyo, GATT agreed to a world-wide tariff conference to be held in Geneva some time in September of this year. The conference will be global in scope and will examine the tariff rates of *every item* involved in international trade. It will, particularly, consider the finding of solutions to reduce trade discriminations between member countries when caused by *some* being "low wage scale" countries, while *others* "high wage scale" countries.

We are making headway.

Where the credit belongs is immaterial. It may be that it should go to our Secretary of the Treasury, Mr. Robert B. Anderson, for his blunt and persistent presentation to our allies and friends of the problems which are facing our nation. Maybe it should go to Mr. C. Douglas Dillon, our Under Secretary of State, for his diligent and eloquent presentation of the problem, in Tokyo, at the GATT meeting.

Of course, credit should also go to our friends and allies for the "good sense" they are showing in trying to understand our problems and in responding with deeds, and not just promises.

The Sixes and the Sevens

The reduction of restrictions against dollar imports undoubtedly, will reduce the deficit in our balance of payments. But, this alone will not solve our balance of payments problem. While one cannot say that this or that item, or group of items, is responsible for a balance of payments deficit, still a most important factor in the overall balance of payments problem remains the need for excess of exports over imports. A foreign trade surplus, while not as substantial as we have been accustomed to, in the past, but substantial enough to protect the strength of the dollar and the favorable export position of our national economy is still a *must*.

In this respect, we cannot lose sight of the difficulties we may yet have to overcome because of the existence of Western Europe's two trade blocs known as the "six" and the outer "seven". The "six" are the members of the European Common Market and include: France, West Germany, Italy, the Netherlands, Belgium and Luxemburg. The "seven" are the member nations of the new Europe Free Trade Association and include: Great Britain, Norway, Sweden, Denmark, Switzerland, Austria and Portugal.

The goal of the "six" is to insure a common market, through steps to be taken at studied intervals, which will eventually lead to the letting down of all tariff barriers between them. Some of these steps will include

the establishment of a common foreign policy; a free movement of labor; the right of establishment of business concerns without restrictive controls; a harmonization of tax policies to make competition fair; and also some sort of "joint business cycle policy" that enables one member country to come to the assistance of the other, if one enjoys prosperity and the other one is going through a depression. There is even some talk that, should their present economic supra-nationalism efforts meet with success, the purposes of the Rome Treaty, under which the common market now operates, may be extended so that the "six" will eventually move toward one money and one central bank and some kind of common budget, uniting the six into a "United States of Europe." At the present, there are some *160 million consumers* residing within the six countries making up the European Common Market.

The "seven" do not go quite as far as the "six". Their main purpose is to establish a seven-nation free-trade area, maintaining at the same time, their respective individual national economies. The combined population of the "seven" present a mass market of *90 million consumers*. The common market is a politically oriented European Economic Community led by France and Germany, while the European Free Trade Association, led by Britain, is non-political and its members will merely seek a wider and more realistic "most-favored nation" relationship in their trade with each other.

The existence of these two European economic blocs, unless effectively coordinated with our own policies, can present serious competition to our own national economy. This is so because of the growing interdependence between the Western Europe and United States economies which now require closer cooperation than ever before.

Early in December of last year, Mr. Dillon visited the countries of Britain, France, West Germany and Belgium. The purpose of his visits was to discuss with the leaders of these nations, particularly with the British and French leaders, the necessity of avoiding a *trade war* between the two European economic blocs. It was agreed that a series of conferences, with the United States sitting in, should be held between the representatives of the two economic blocs during this coming year. The first such conference was held in Paris (January 13, 1960 and January 14,

1960). Officially, this was the meeting of the Organization for European Economic Cooperation, established in 1948 to supervise Marshall Plan funds and which has continued to serve as a clearing house for European trade. The United States and Canada indicated that they would be ready to join with Europe in a trade and aid plan as full members of the OEEC.

No problem of substance was solved at this meeting, but the necessity of cooperation between the free nations for an integrated over-all solution of international trade problems was again emphasized. It was natural that the D. L. F.'s declared policy of tying-in foreign aid with foreign trade should bring up for consideration the even more serious problems existing in the field of foreign trade and foreign relations. This is so because economic and political objectives of nations are becoming more and more synonymous. We cannot "tie-in" foreign aid with foreign trade without bringing both within the framework of our nation's foreign policy.

Foreign aid is foreign policy.

Because of the fantastically rapid changes going on within our borders and beyond, both political and economic, foreign aid and foreign trade become the pivot around which our policy in foreign affairs inescapably revolves. This does not necessarily mean that, in the future, our foreign policy will have to be mapped out by economists. On the contrary, because of its close link to internal national economic policy, the determination of foreign policy is no longer a problem to be dealt with by tariff experts alone. It must receive the attention of those concerned with political planning and strategy at the highest level, in both internal and foreign affairs.

Can American Goods Compete

We spent 75.8 billion dollars, these past fifteen years, to help improve the national economy and the currency of leading democratic, industrially developed nations. We also allowed these nations to follow a policy of high tariffs and import restrictions against American made goods. We are now at the threshold of trying to bring together the logical

benefits that should follow these two expensive but most wise endeavors. We do not expect that we be repaid the 75.8 billion dollars we spent. We do expect our friends and allies to reduce their restrictions against American made goods and assume a proportionate share of the costs of the world-wide program of economic assistance to under-developed countries.

We made some headway at the GATT meeting and have succeeded in having restrictions removed against American imports, at least as to some American made products, by Great Britain, France and, soon, Japan. Efforts are being made to reorganize OEEC so that our own economy could fit in with the economy of the democratic European nations. Of course, it is also our further desire that our economy should fit in and co-ordinate with the economies of democratic nations other than just the European nations.

But, even if we should succeed in our endeavors and work out favorable arrangements with our friends and allies, the question still remains can American made goods successfully compete in the markets of the free world.

In the two economic blocs alone, the "Sixes" and the "Sevens", there is a market of 250,000,000 consumers. How many of these consumers would, or could afford to, buy American made goods at the high prices caused by the continuous labor demands for higher and higher wages and continuous management expectations of higher and higher profits.

Vice President Richard M. Nixon concedes that there is a "critical necessity of increasing our efficiency and productivity if we are to maintain our competitive position in the world." But, some prominent leaders in the Administration, and out of it, refuse to accept the theory that high American prices are to blame for our export difficulties and that we are gradually pricing ourselves out of the world's markets. The fact remains that exports have declined steadily and that the decline has been a major factor in causing large deficits in the United States balance of payments.

Bales of Woe

The D. L. F.'s policy requiring the under-developed countries to use our aid dollars to buy American made products served another good purpose. That is, it showed the importance of balance of payments in relation to our national economy, by mixing aid with trade *and* aid and trade *with* our economy. However, we failed to point up the extent to which *internal* policies can adversely affect our balance of payments and, therefore, our national economy and our foreign policy.

Cotton, and our national policies affecting cotton production and price, is an excellent example of the effect internal policies can have upon the size of our balance of payments deficit and upon our foreign policy. The following editorial (The New York Herald Tribune, January 15, 1960) points up the cost to the American taxpayer resulting from the subsidies our Government gives cotton:

"King Cotton's Court: Royal Extravagance.—Sen. John J. Williams of Delaware, who likes to keep tabs on the agricultural boondoggle, has again come up with a set of figures on subsidies to the cotton industry. In the past three years, he notes, 'the government under its export subsidy program has purchased over 16,000,000 bales and then exported this same cotton at a direct loss to the American taxpayers of over \$800,000,000. This is an average loss of over \$20 for every bale of cotton which has been produced in America during the past three years.' Help for the struggling family farmer? Well, not exactly. On their 1958 crops, the Senator points out, 250 cotton producers collected government price-support "loans" of \$100,000 or more. This included a whopping \$1,442,595 to Westlake Farms, Inc., of Stratford, Calif., and \$1,216,699.80 to the now famous Delta Pine & Land Co., of Scott, Miss.—a wholly British-owned corporation. * * *

If we couple the above with the comments in the following editorial (November 9, 1959 in The Daily American, an English newspaper of the Mediterranean and the Middle East, published in Rome) we get a clearer picture of how inter-related domestic policies and foreign policies

are and how they can affect the problems of international trade and the international payments deficits:

*"Bales of Woe .—*Half the American export market for cotton upped and disappeared in the last year, and the people have a right to ask why. Yes, the world cotton market shrank. The loss of sales was 1.5 million bales. American exporters stood the whole world loss, and more besides. Our sales dropped 2.8 million bales—which means foreign producers sold 1.3 million more bales in a shrinking market. It seems that this is just another instance of our farm price support policy catching up with us. Our cotton, even with the export subsidy of 6½ cents a pound paid out of everyone's tax money, was priced too high . ***"

The Gravy Train

Another equally serious problem crying out for a solution is our continuance of an out-moded, unrealistic price-supports program which encourages over-production of grains, especially wheat, in addition to putting the Government into a costly storage business. Secretary of Agriculture, Ezra Taft Benson, speaking of storage costs alone, states that "of course, storage costs are high—extremely high at \$1,250,000 *per day* for wheat alone. These costs will go higher unless the scandalous obsolete wheat program is corrected ." Congressional criticism is leveled at Mr. Benson for his position in this matter, by Democrats and Republicans alike.

The New York World-Telegram and The Sun, a Scripps-Howard newspaper, (January 14, 1960) editorially presents the problem this way:

*"Gravy Train.—*Sen. Stuart Symington says he's never heard anything like it; but the huge profits in the government grain storage business have been a matter of pretty common knowledge. Hearings of the Symington Senatorial subcommittee are merely bringing them to official notice. The hearings place storage profits at from 69 to 167 per cent. And it isn't even their own money they risk . They can borrow it from the government . The whole business is epitomized in an ad mailed to grain elevator operators and read at the hearing: 'Are you passing up Uncle Sam's gravy train? . . . There's

gold in them there mountains of grain.' There certainly is plenty of gold . It is costing the government nearly a billion dollars a year just to store and finance these growing mountains of grain which a misguided, subsidy system bribes the farmer to produce . *** "

Possession of a lot of gold, from accumulated reserves and from favorable balance of payments, does not make foreign aid easier for the United States any more than possession of gold by European countries will make it feasible for those European countries to launch a foreign aid program of their own. A country's national budget is still to be reckoned with, when foreign policy affecting international trade, foreign exchange and foreign aid is formulated. That is, whether for internal needs or by way of contributions for foreign aid, spending of any kind must go through the budget.

Therefore, when spending is considered, increases in taxes must also be considered, in order to keep a balanced budget, and the two illustrations given above, the export subsidy program with regard to cotton and the price-supports and storage program in the case of grain, again show how inter-related internal and foreign policies can be. This waste does not only keep our national budget unbalanced and our national debt unpaid, but contributes considerably to our balance of payments deficit by keeping our national produce *out* of foreign markets.

More Woes

Our woes continue to pile up when we consider the many other equally serious and unsolved internal problems.

For instance, the problem of steel remains still a serious one, in spite of the settlement of the historically long steel strike. Internally, because of its inflationary aspects and externally because the new increase in costs of production will make its price, already prohibitive for foreign markets, even more so. Steel, always one of our most outstanding items on our list of exports, is slowly losing its position. During the past two years, steel exports have declined sharply while the tide of foreign steel imports has steadily risen.

The problems of the railroads show no signs of solution and they will become even greater, if the steel strike settlement sets a precedent for the forthcoming wage fight in the railroad industry. Higher wages in addition to its contributing to the inflationary trend, will add to the costs of transportation, which cost will be passed on to the transportation of freight for both domestic and foreign shipments, further lessening the chances of American made products to compete in foreign markets.

Another example is machine tools. The National Machine Tool Builders Association reports that during the month of November 1959, in only *one month*, foreign orders for cutting and forming tools fell from \$15,500,000 to \$9,450,000, that is, 6 million dollars loss. In July and August 1959, the figures for the whole tool industry, including production for domestic and foreign requirements, dropped considerably mainly because of the industry's close link to the steel supply situation; steel supply having been almost completely shut off by the steel strike. The year of 1958 was a sharply depressed one for the tool industry, loss of foreign orders being a substantial factor.

Price-supports and high costs of production in this country have also caused some \$30 billions in annual production to be manufactured in other countries by branches and affiliates of American firms.

Of course, there are many, many other examples that could be cited.

The challenge that confronts our nation and our people, that is, to set our house in order so that we may successfully fulfill the purposes to which we are dedicated, is indeed a great one. This challenge becomes even more formidable, when we consider its importance in helping us meet the Communist challenge.

The Communist Challenge

"Peaceful Co-Existence" was first used by Stalin as far back as December 18, 1925, when he told the Fourteenth Communist Congress:

"There has been established a certain temporary balance of power; a balance which has determined the current phase of peaceful co-

existence between the land of the Soviets and the Countries of capitalism. That which we once believed to be a short respite after the war has turned out to be a whole period of respite. Hence a certain balance of power and a certain period of 'peaceful co-existence' between the world of the bourgeoisie and the world of the proletariat. * * * *We are living through a period of accumulation of strength which has great significance for future revolutionary initiatives.*"

But, as soon as this policy was no longer necessary or convenient to the Soviets, this is what Stalin had to say to the Fifteenth Party Congress, less than two years later (1927) :

"If two years ago it was possible and necessary to speak of a period of a certain equilibrium and 'peaceful coexistence' between the U. S. S. R. and the capitalist countries, now we have every basis for declaring that the period of 'peaceful coexistence' is receding into the past."

Russia's "co-existence" policies have been used *at all times* as diversionary movements and for just one and always the same purpose, the purpose first announced by Stalin, to secure "*a period of accumulation of strength* (for the Communists) * * * *for future revolutionary initiatives.*"

The Soviet's professed policy of "peaceful co-existence" took us to the Geneva Summit conference in August, 1955 and gave the Russians the opportunity to propagandize what they conveniently called the "Geneva Spirit." Within months of the Geneva Summit meeting, the calculations by the statesmen of the Big Three powers who, through their official pronouncements prior to the Geneva Summit had spread the gospel of hope around the world, were proved foolish and unfounded. It seems that now, five years later, we are about to *ascend* still another summit. Mr. Khrushchev, taking propaganda advantage of the "Camp David Spirit", professes a change in foreign policy which he attractively presents to the world by the trickily-coined phrase of "competitive co-existence."

Man is a chronic wisher for peace and "meetings at the Summit" always keep up his optimism and increase his hopes that "talks" may avert war.

But, why should we forget what Mr. Khrushchev had to say when he spoke at the banquet given in Moscow in honor of the East German communist Otto Grottewohl? This was shortly after Mr. Molotov angrily hammered out a new Russian "get tough" policy, at the meeting of the Foreign Ministers of the Big Four who met in Geneva in the fall of 1955. This is what Mr. Khrushchev had to say then:

"They say that the Soviet leaders smile but that their actions do not match their smiles. The smiles are sincere; we wish to live in peace. But if anyone thinks that our smiles mean we abandon the teachings of Marx and Lenin or abandon our Communist road, they are fooling themselves. We are for co-existence. But we are also for the growth of Communism. We are confronted with the reality of two different systems. You capitalists go your way of the blind. If you really think that your system is not too old and rotten, if you believe that it is really possible to keep up in the race, go ahead and try and compete. We will find out who is right."

Mr. Khrushchev is a blunt man and here in clear terms is *the challenge* to the free democratic world in general and to us, the United States, in particular.

The Russians only recently shot ballistic missiles more than 7,700 miles from its firing pad in Russia and within about a mile off its target, right in our back yard. The question is:

What is the target of Communist Russia, *the Moon or the United States?*

"* * * We have to deal with an enemy and an ideology that are bent on world conquest. For the first time in history the United States finds itself confronted by the fierce rivalry not of an old empire but of a new one, ruthless, technically proficient, unhampered by the conscience of democratic morality or the restraints of parliamentary government * * *." (Editorial—The New York Times, January 7, 1960).

Peace with Security

While we wait hopefully for some agreement with Soviet Russia, by Summit meetings or otherwise, we must continue our defense effort. And, in meeting the Soviet challenge, we cannot ignore the important factor of collective security, embracing the armed forces of all free nations. Our defense effort is of global nature and is in common with more than forty other nations. Foreign aid, both military and economic, is part and parcel of this defense effort. In order to carry out our over-all defense program we had to, and did, undertake heavy commitments.

In his speech, to the Atlantic Council, on December 15, 1959, Secretary of State, Christian A. Herter, quieted the doubts of the European nations as to our intention toward Europe and our obligations under NATO. The Council meeting ended with an agreed Ten-Year Plan of action. NATO's Ten-Year Plan reassured our allies and it is hoped that it also discouraged Soviet hopes that the North Atlantic Alliance was falling apart. The plan calls for a strong military defensive system, with each member contributing a balance of collective forces and assuming the cost thereof.

Mr. Herter made it clear that we are expecting more substantial contributions on the part of each member of NATO, particularly on the part of those members that have substantially improved their respective national economies. However, he added that by this we did not mean to imply that we would reduce our own contributions; on the contrary, he said, we would increase our contributions so that NATO will meet its maximum defense capabilities.

The financial commitments under NATO are in keeping with our established Foreign Policy and it is a misnomer to label appropriations and disbursements under these commitments as "foreign aid" or "foreign (military) aid." Similarly, it is not correct to call the costs of military aid to the allies and free nations not within NATO, as "foreign aid." Foreign military aid, both within and outside of NATO, is the implementation of our established Foreign Policy. The costs resulting therefrom are chargeable to "costs for the national defense" and cannot

and should not be labeled, looked upon or talked about as "foreign aid." In his budget message, addressed and submitted to the Congress of the United States, on January 18, 1960, President Eisenhower, in referring to these costs, correctly points out under the heading *International Affairs and Finance* that "the military assistance portion of this program is carried in the *Department of Defense Chapter*, and has been discussed in the *Major National Security* section of this message." The costs for military assistance are thus properly charged to the Department of Defense.

In addition to providing for military common defense, the NATO Ten-Year Plan, also provides that increased aid to under-developed countries be more equitably shared, with the European nations assuming a larger share of the burden; with us agreeing to continue to provide the necessary funds to cover our own share in this increased economic assistance program. Thus, in the field of foreign aid to under-developed countries, we are again doing nothing more than implementing another phase of our foreign policy. The help we give to the under-developed countries is help for the cause of freedom, American freedom and freedom throughout the world.

We are solemnly committed to this Foreign Aid—Foreign Policy program. If we are to lead as a great free people, we must not only firmly stand by the commitments which we have so valiantly undertaken, but must also take such measures in internal and foreign affairs and make such personal sacrifices as might be necessary successfully to meet the challenge of our enemy and insure our security as a free and independent nation.

N. Henry Josephs

New York, New York
February, 1960

STAT

N. HENRY JOSEPHS



Hon. Allen W. Dulles
Director
Central Intelligence Agency
Washington, D. C.

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Remarks:

For information and whatever action

you deem appropriate.

Bob - at a scan seems quite reasonable in thrust, though overdrawn in some aspects. A strong defense of foreign aid through alas of dollar - tied loans by O.K. Have drafted a letter attached.

FOLD HERE TO RETURN TO SENDER

ADDRESS AND PHONE NO.		DATE
Asst. to the DCI		2/16/60